

Croatia Watch: Stubborn service inflation

With data for September showing the lowest yoy increase since March 2021, inflation in Croatia has levelled off at 3.0% yoy in the first nine months of the year. It is clear that prices are normalising in all but one aggregate. Services are still causing headaches! Although the stubbornness of service inflation is a well-known development throughout Europe, it is even more pronounced in Croatia.

In Jan-Sep 2024 average CPI growth 3.0% yoy **1**

Disclaimer **5**

Analyst **8**



In Jan-Sep 2024 average CPI growth 3.0% yoy

In September, CPI fell to 1.6% yoy, recording the lowest increase since March 2021. Considering that Croatia recorded a continuous yoy increase of 4.1% in Q1 24, at first glance the **average annual inflation of 3.0% in the first nine months** could mean that the disinflation process might soon reach the targeted level of around 2%. **But what is behind the curtain?** The relatively strong disinflation after Q1 was primarily the result of **lower prices for energy and industrial goods**. The monthly rise in **food** prices is currently hovering around the long-term average, but inflation in **services** is causing headaches.

As a small and open economy, Croatia is very prone to external shocks, which are reflected in the domestic market with a certain time lag. After the end of **the energy and food price shock**, in 2024 we could see that energy prices have contributed strongly to disinflation, especially after May, and that food prices have given up their role as the leader of inflation growth.

To some extent, this disinflation contribution of energy prices is due to **untargeted government measures** introduced to help consumers and businesses in times of energy crisis and inflation shock. In September, the government announced that it would gradually adjust the administratively set prices for energy (gas and electricity prices) for households, **which should push the CPI up to some extent by the end of the year**. On the other hand, food prices could normalise further as we have already seen that monthly growth is at or close to the long-term average and follow the usual pattern of monthly developments. In addition, food prices have already reached the EU price average in 2022, so we do see a narrow or almost no existing space for convergence.

Some of Croatia's most important trading partners, such as Germany and Austria, are currently experiencing subdued economic activity. Sluggish industrial activity and subdued foreign demand from those markets are also reflected in domestic industry, which do not yet show any signs of a sustained recovery. In line with subdued demand, **goods inflation** contributed only 0.4pp to the overall rise in consumer prices in Jan-Sept 2024.

Zrinka ZIVKOVIC-MATIJEVIC

Analyst

+385 1 6174-338

zrinka.zivkovic-matijevic@rba.hr

Petar BEJUK

Analyst

petar.bejuk@rba.hr

This document is a marketing communication.

This report is intended for replaceme@bluematrix.com. Unauthorized distribution of this report is prohibited.

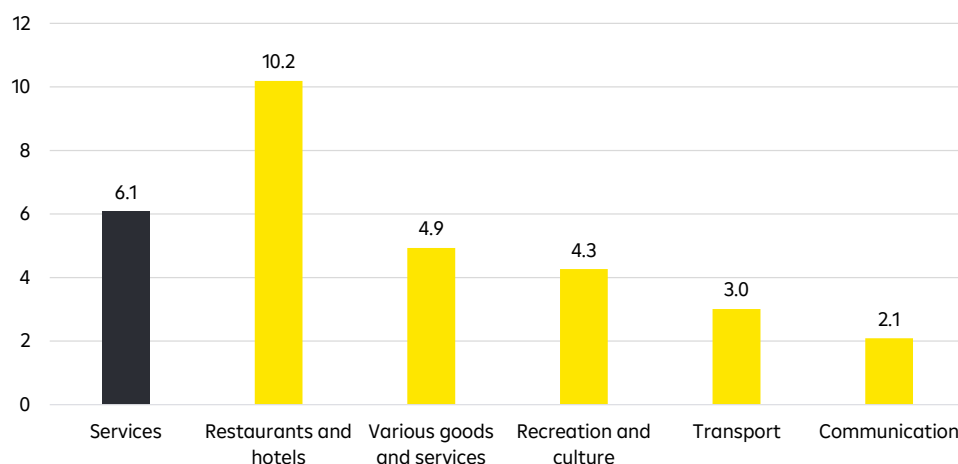
Contributions to the average CPI inflation in Jan-Sept 2024 (in pp)



Source: HNB, RBI/Raiffeisen Research

In contrast to the predominantly positive news stands the inflation in services prices. **It contributed more than 50% to the overall rise in inflation in the first nine months.** Suffice to say that despite lower goods inflation, **core inflation in the period Jan-Sept 2024 stood at 3.8% yoy.** A closer look shows that inflation is broad-based in the services sub-aggregates, but is particularly pronounced in one sub-aggregate: **Restaurants and hotels.** So what are the reasons for such a high aggregate? Put simply, it is a reflection of a **strong labour market combined with strong, double-digit wage growth and a solid tourist season leading to strong domestic and foreign demand for various services, particularly restaurant and accommodation services.**

Service inflation is most pronounced in restaurants and hotels (% yoy)

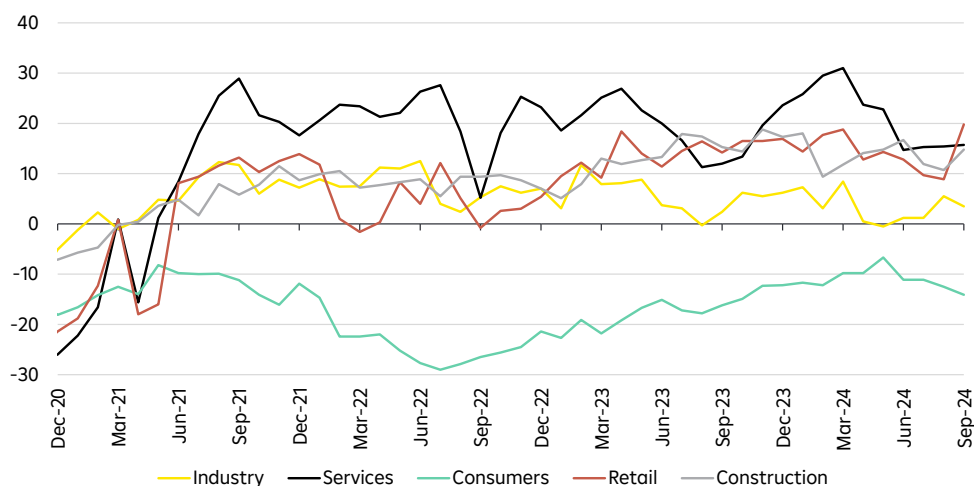


Services inflation sub-aggregates, Jan-Sep 2024

Source: Eurostat, RBI/Raiffeisen Research

This certainly has an impact on **selling price expectations for services**, as companies are able to pass on at least the higher input costs to end consumers. The Eurostat data therefore show that the **business optimism** of companies in the service sector is consistently above the long-term average.

Business optimism across sectors (in points)

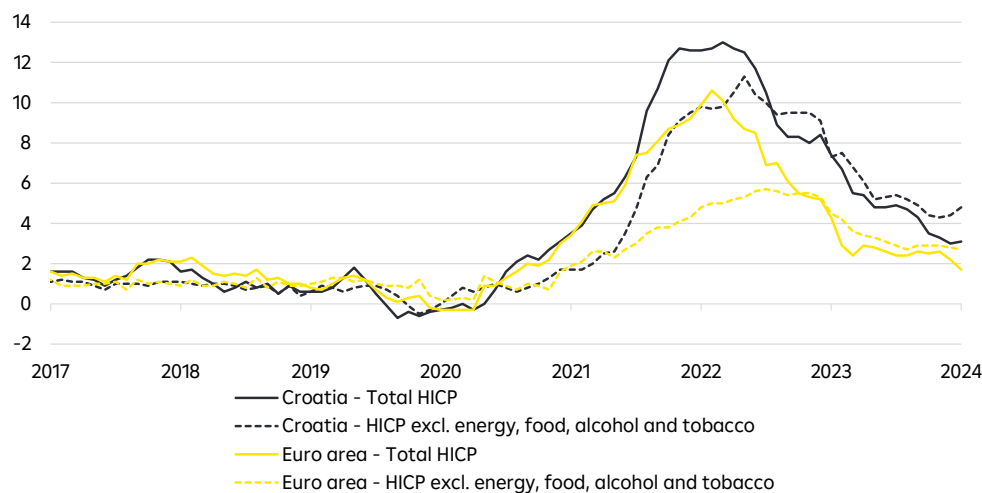


0 = long term average

Source: Eurostat, RBI/Raiffeisen Research

Where could one find more evidence of the problem of service inflation in Croatia? Looking at the **harmonised consumer price index**, inflation in the first nine months of 2024 was 4.0% in Croatia and 2.4% in the euro area. This primarily reflects the difference in the structure of the average consumer basket and the stronger growth in service prices in Croatia. This is because the harmonised index also takes into account the consumption of foreign guests, and services are given a significantly higher weight in the calculation. Suffice to say that in September the growth of service prices accelerated to 8.2% compared to September 2023. **This was the highest increase among the euro area member states.**

Inflation in Croatia and euro area (% yoy)



Source: Eurostat, RBI/Raiffeisen Research

Nevertheless, with the base effect, the expected slowing down of wage growth, the already pronounced rise in prices in the previous period and significantly narrowed space for price convergence, the price stability in services will be gradually established in the course of the next year. Further, price growth will largely depend on the dynamics of the continued growth of the economy based on consumption and the consumer confidence, which is influenced by a number of factors. The announced tax relief for wages and raising the minimum wage by 30% as 1st of January are the most recent decisions that will support domestic demand in 2025. In addition, the previous increase in salaries in the public sector are likely to put pressure on the private sector as well. Eventually, threats from global (commodity) markets although not in the baseline scenario always lurk around the corner

and could cause a new supply shock thus stopping the expected disinflationary process.
For this year, we are sticking to our forecast of CPI at 3% yoy followed by further decline to 2.6% in 2025.

Disclosure

Risk notifications and explanations

Warnings:

- Figures on performance refer to the past. Past performance is not a reliable indicator for future results and the development of a financial instrument, a financial index or a securities service. This is particularly true in cases when the financial instrument, financial index or securities service has been offered for less than 12 months. In particular, this very short comparison period is not a reliable indicator for future results.
- Performance of a financial instrument, a financial index or a securities service is reduced by commissions, fees and other charges, which depend on the individual circumstances of the investor.
- The return on an investment in a financial instrument, a financial or securities service can rise or fall due to exchange rate fluctuations.
- Forecasts of future performance are based purely on estimates and assumptions. Actual future performance may deviate from the forecast. Consequently, forecasts are not a reliable indicator for future results and the development of a financial instrument, a financial index or a securities service.

A description of the concepts and methods used in the preparation of financial analyses is available under: www.raiffeisenresearch.com/concept_and_methods.

Detailed information on sensitivity analyses (procedure for checking the stability of potential assumptions made in the context of financial analyses) is available under: www.raiffeisenresearch.com/sensitivity_analysis.

Disclosure of circumstances and interests which may jeopardise the objectivity of RBI: www.raiffeisenresearch.com/disclosuresobjectivity.

Detailed information on recommendations concerning financial instruments or issuers disseminated during a period of 12 month prior to this publication (acc. to Art. 4 (1) i) Commission Delegated Regulation (EU) 2016/958 of 9.3.2016) is available under: https://raiffeisenresearch.com/web/rbi-research-portal/recommendation_history.

IMPORTANT LEGAL NOTICE

By opening and/or using the information, services, links, functions, applications or programmes (hereinafter: "contents") offered on this website, the user hereby agrees to be bound by the terms and conditions set out below:

Copyright law

The contents offered on this website and subsites (hereinafter: the "RBI Research-Website") are protected by copyright law. The downloading or storage of applications or programmes contained on the RBI Research-Website and the (complete or partial) reproduction, transmission, modification or linking of the contents of the RBI Research-Website shall only be permitted with the express and written consent of Raiffeisen Bank International AG ("RBI").

Information content, timeliness of information

The contents of the RBI Research-Website you are seeking to access is for information only and does neither qualify as investment advice nor constitute or form part of any offer to buy or sell any securities or other financial instruments as defined in Article 5 para 1 number 15 of EU Directive 2014/65 ("MiFID II") in any jurisdiction or jurisdictions, (and must not be considered in any way as an offer or sale in relation to any securities or other financial instrument). In particular, no securities have been or will be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and no such securities may be offered or sold in the United States absent registration or exemption from registration under the Securities Act.

RBI has made every effort to ensure reliability in researching the information published on the RBI Research-Website or sent via RBI Research-Website as well as in selecting the source of information used. Nonetheless, RBI does not assume any liability whatsoever

for the correctness, completeness, timeliness or uninterrupted availability of the information made available on the RBI Research-Website or as regards the sources of information used.

The information contained on the RBI Research-Website as well as forecasts published on the RBI Research-Website are based on the information available and the market assessment at the point in time stated in the respective publications. Certain information on this website constitutes forward-looking statements. RBI does not assume and hereby as far as possible expressly excludes any liability for the correctness, completeness or actual occurrence of the events described in the forward-looking statements. Such statements are not guarantees of future performance and involve a number of risks, uncertainties and assumptions. Certain financial data (e.g. stock exchange prices) may in some cases only be published after a certain interval of time has lapsed as defined by the data vendor (usually about 15 minutes or previous day end-of-day quotes). Furthermore, please note that many of the times are given in Greenwich Mean Time (GMT).

You agree and acknowledge that the information and statements contained in the materials you are accessing on the RBI Research-Website speak only as of the date of such document and such information and statements will become inaccurate, stale and/or out-of-date thereafter. These materials should not be relied upon at any time for any investment decision.

RBI assumes no responsibility to maintain documents posted on the RBI Research-Website or to update any documents. Therefore, users of the RBI Research-Website acknowledge that the content of documents available on the RBI Research-Website may not show the most recent scenarios, analysis or conclusions.

Restricted access due to local regulations

Users of the RBI Research-Website can access some documents and information without registration requirements and without further barriers (the respective area on the RBI Research-Website is hereinafter referred to as "Unrestricted Area"). By accessing the Unrestricted Area, you agree and acknowledge that the materials on the RBI Research-Website may lawfully be made available in accordance with the laws of the jurisdiction in which you are located.

Other documents are only available to persons who have registered themselves in accordance with the required procedure. The part of the RBI Research-Website which can only be accessed by way of registration is hereinafter referred to as "Restricted Area").

Due to the laws applicable in some jurisdictions or regulations imposed by capital market or securities authorities, some of the information published on the RBI Research-Website (e.g. stock analyses) is not addressed to private individuals. In order to ensure the enforcement of such local access restrictions, RBI retains the right to take any (technical) measures it may deem suitable for restricting such information or segments of information subject to the aforementioned restrictions. The passing on of information contained on the RBI Research-Website, which is subject to local access restrictions valid in certain countries, to the persons stated in the relevant restrictions may constitute a breach of securities law or of other laws of said countries.

The distribution or dissemination of information published on the RBI Research-Website as well as the purchase and offering of the respective products in certain jurisdictions may be subject to restrictions or additional requirements. Persons who retrieve such information from the RBI Research-Website or into whose possession such information comes are required to inform themselves about and to observe such restrictions. In particular, the products to which such information published on the RBI Research-Website refers, may generally not be purchased or held by U.S. persons (the term "U.S. person" refers to any legal/natural person having its seat/residence in the U.S.A and any other person within the meaning given to it by Regulation S under the Securities Act 1933 as amended).

Users of the Unrestricted Area should be aware that the documents available on this part of the RBI Research-Website are not made available on the basis that any customer relationship is created between RBI and such user solely on the basis of such user having access to the respective documents. The documents available in the Unrestricted Area are intended to be available to users in the European Economic Area and in the United Kingdom.

Links to websites or URLs of third-party providers

With the exception of the cases regulated under § 17 of the Austrian E-Commerce Act, RBI does not assume any liability for the content of websites or URLs of other providers to which links are provided. Neither does RBI assume any liability for the uninterrupted availability or full functionality of the links to websites or URLs of third parties.

Exclusion of liability

RBI makes no warranty and will accept no liability for any damages whatsoever (including consequential or indirect damages, or lost profits) relating to the access to the RBI Research-Website, the opening, use or querying of the contents on the RBI Research-Website or relating to the links set up on the RBI Research-Website to websites or URLs of third parties. This applies also in cases in which RBI points out the possibility of incurring such damages.

Furthermore, RBI shall not be liable for technical disruptions such as server breakdowns, operating disruptions or failures of the telecommunications links and other similar events, which could lead to the (temporary) unavailability of the RBI Research-Website as a whole or parts of it.

Storage of registration data

The content in the Restricted Area of the RBI Research-Website is only available to registered users. By sending the completed online registration form, the user confirms the completeness and correctness of the data given and also confirms having truthfully answered the questions asked. Furthermore, by sending the completed online form, the user hereby declares his or her consent to the electronic processing of his or her registration data by RBI for both internal banking organisational purposes and for transmission to other credit institutions within the Raiffeisen Banking Group, which may in turn also process, pass on or use such data.

Changes to the RBI Research-Website

RBI retains the right to change and to remove the RBI Research-Website at any time (if necessary also without prior notice), in particular as regards changing existing contents (in full or in part) and adding new contents.

General terms and conditions of business

For (authorised) users who use the services of RBI provided on the RBI Research-Website, the General Terms and Conditions of Business, as amended, of RBI shall apply in addition to the terms and conditions of this Disclaimer.

Please also take note of the general information provided pursuant to § 5 of the E-Commerce Act!


Thomas Sternbach Legal and Compliance Raiffeisen Bank International AG Am Stadtpark 9, 1030 Wien Tel: +43-1-71707-1541 Fax: +43-1-71707-761541 thomas.sternbach@rbinternational.com

IF YOU CANNOT SO CERTIFY, YOU MUST CLICK THE BUTTON LABELLED "I DECLINE" OR OTHERWISE EXIT THIS WEBSITE.


BY ACCESSING THE MATERIALS ON THIS WEBSITE, YOU SHALL BE DEEMED TO HAVE MADE THE ABOVE REPRESENTATIONS AND CONSENTED TO DELIVERY BY ELECTRONIC TRANSMISSION.

This document is a marketing communication.

FABIAN BLASCH

📍 Austria 
✉ fabian.blasch@rbinternational.com


AMADEA HIESS

📍 Austria 
✉ amadea.hiess@rbinternational.com

MARKUS TSCHAPECK

📍 Austria 
✉ markus.tschapeck@rbinternational.com


VALBONA GJEKA

📍 Albania 
✉ valbona.gjeka@raiffeisen.al

OLGA ZHEGULO

📍 Belarus 
✉ olga.zhegulo@priorbank.by


MIRZA ZORNIC

📍 Bosnia Herzegovina 
✉ mirza.zornic@raiffeisengroup.ba

ELIZABETA SABOLEK-RESANOVIC

📍 Croatia 
✉ elizabeta.sabolek-resanovic@rba.hr

HELENA HORSKA

📍 Czech Republic 
✉ Helena.Horska@rb.cz


ZOLTÁN TÖRÖK

📍 Hungary 
✉ torok.zoltan@raiffeisen.hu


ANDREEA-ELENA DRAGHIA

📍 Romania 
✉ Andreea-Elena.DRAGHIA@raiffeisen.ro


GREGORY CHEPKOV

📍 Russia 
✉ grigory.chepkov@raiffeisen.ru

TIBOR LORINCZ

📍 Slovakia 
✉ tibor_lorincz@tatrabanka.sk

GUNTER DEUBER

📍 Austria 
✉ gunter.deuber@rbinternational.com


MATTHIAS REITH

📍 Austria 
✉ matthias.reith@rbinternational.com


FRANZ ZOBL

📍 Austria 
✉ franz.zobl@rbinternational.com

FJORENT RRUSHI

📍 Albania 
✉ Fjorent.Rrushi@raiffeisen.al


ASJA GRDJO

📍 Bosnia Herzegovina 
✉ asja.grdjo@raiffeisengroup.ba


PETAR BEJUK

📍 Croatia 
✉ petar.bejuk@rba.hr


ANA TURUDIC

📍 Croatia 
✉ ana.turudic@rba.hr


LEVENTE BLAHÓ

📍 Hungary 
✉ levente.blaho@raiffeisen.hu


DOROTA STRAUCH

📍 Poland 
✉ dorota.strauch@raiffeisen.pl


IONUT DUMITRU

📍 Romania 
✉ Ionut.Dumitru@raiffeisen.ro

STANISLAV MURASHOV

📍 Russia 
✉ stanislav.murashov@raiffeisen.ru


SERHII KOLODII

📍 Ukraine 
✉ serhii.kolodii@raiffeisen.ua

CASPER ENGELEN

📍 Austria 
✉ casper.engelen@rbinternational.com


GOTTFRIED STEINDL

📍 Austria 
✉ gottfried.steindl@rbinternational.com


BRISIDA BUZI

📍 Albania 
✉ Brisida.BUZI@raiffeisen.al

ARISTEA VLLAHU

📍 Albania 
✉ Aristea.Vllahu@raiffeisen.al


IVONA ZAMETICA

📍 Bosnia Herzegovina 
✉ ivona.zametica@raiffeisengroup.ba


ANA LESAR

📍 Croatia 
✉ ana.lesar@rba.hr

ZRINKA ZIVKOVIC-MATIJEVIC

📍 Croatia 
✉ zrinka.zivkovic-matijevic@rba.hr

GERGELY PÁLFFY

📍 Hungary 
✉ gergely.palffy@raiffeisen.hu


NICOLAE COVRIG

📍 Romania 
✉ Nicolae.Covrig@raiffeisen.ro

ANASTASIA BAYKOVA

📍 Russia 
✉ ABAIKOVA@raiffeisen.ru

LJILJANA GRUBIC

📍 Serbia 
✉ ljiljana.grubic@raiffeisenbank.rs

OLEKSANDR PECHERYTSYN

📍 Ukraine 
✉ oleksandr.pecherytsyn@raiffeisen.ua

Imprint

Creation time of this publication: 17/10/2024 12:19 P.M. (CEST);

First Dissemination of this publication: 17/10/2024 12:19 P.M. (CEST)

Information requirements pursuant to the Austrian E-Commerce Act

Raiffeisen Bank International AG Registered Office: Am Stadtpark 9, 1030 Vienna Postal address: 1010 Vienna, Postfach 50 Phone: +43-1-71707-1846 Fax: +43-1-71707-1848

Company Register Number: FN 122119m at the Commercial Court of Vienna VAT Identification Number: UID ATU 57531200 Austrian Data Processing Register: Data processing register number (DVR): 4002771S.W.I.F.T.-Code: RZBA AT WW

Supervisory Authorities: As a credit institution (acc. to § 1 Austrian Banking Act; Bankwesengesetz) Raiffeisen Bank International AG is subject to the supervision by the Austrian Financial Market Authority (FMA, Finanzmarktaufsicht) and the National Bank of Austria (OeNB, Oesterreichische Nationalbank). Additionally, RBI is subject to the supervision by the European Central Bank (ECB), which undertakes such supervision within the Single Supervisory Mechanism (SSM), which consists of the ECB and the national responsible authorities (Council Regulation (EU) No 1024/2013 - SSM Regulation). Unless set out herein explicitly otherwise, references to legal norms refer to norms enacted by the Republic of Austria.

Membership: Austrian Federal Economic Chamber, Federal Bank and Insurance Sector, Raiffeisen Association.

Statement pursuant to the Austrian Media Act

Publisher and editorial office of this publication Raiffeisen Bank International AG Am Stadtpark 9, A-1030 Vienna **Media Owner of this publication** Raiffeisen RESEARCH – Verein zur Verbreitung von volkswirtschaftlichen Analysen und Finanzmarktanalysen Am Stadtpark 9, A-1030 Vienna **Executive Committee of Raiffeisen RESEARCH – Verein zur Verbreitung von volkswirtschaftlichen Analysen und Finanzmarktanalysen:** Mag. Gunter Deuber (Chairman), Mag. Helge Rechberger (Vice-Chairman) Raiffeisen RESEARCH – Verein zur Verbreitung von volkswirtschaftlichen Analysen und Finanzmarktanalysen is constituted as state-registered society. Purpose and activity are (inter alia), the distribution of analysis, data, forecasts and reports and similar publications related to the Austrian and international economy as well as financial markets. **Basic tendency of the content of this publication**

- Presentation of activities of Raiffeisen Bank International AG and its subsidiaries in the area of conducting analysis related to the Austrian and international economy as well as the financial markets.
- Publishing of analysis according to various methods of analyses covering economics, interest rates and currencies, government and corporate bonds, equities as well as commodities with a regional focus on the euro area and Central and Eastern Europe under consideration of the global markets.

Producer of this publication Raiffeisen Bank International AG Am Stadtpark 9, A-1030 Vienna